



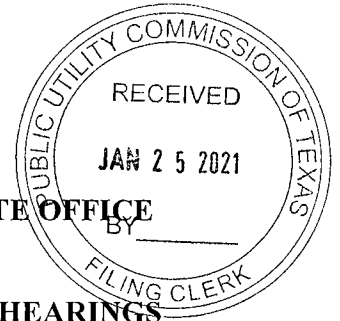
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SOAH DOCKET NO. 423-21-0538
PUC DOCKET NO. 51415



APPLICATION OF SOUTHWESTERN §
ELECTRIC POWER COMPANY FOR §
AUTHORITY TO CHANGE RATES §

BEFORE THE STATE OFFICE
OF
ADMINISTRATIVE HEARINGS

**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO OFFICE OF
PUBLIC UTILITY COUNSEL'S SEVENTH REQUEST FOR INFORMATION**

JANUARY 25, 2021

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Question No. OPUC 7-1:

Please refer to WP Schedule A-3.10, sponsored by Mr. Michael Baird. Please provide an explanation as to why the Overhead Loading-Pension is included in the calculation of the total pension pr books expense, excluding the Supplemental Executive Retirement Plan. Please include in your response the reasoning behind SWEPCO's difference in pension expense computation to that proposed by AEP Central Texas in Docket No. 49494, in which the Overhead Loading-Pension was not part of the calculation.

Response No. OPUC 7-1:

Overhead Loading- Pension is included in Account #9260050 as noted on WP Schedule A-3.10, and is also included in the pension calculation for Docket 49494 at WP II-D-2-3 ASC 715-30 Pension. In Docket 49494 Account #9260050 is titled Frg Ben Loading - Pension. Although titled differently, this account is included in the calculation for both dockets.

Prepared By: Tiffany A. Powell Day

Title: Regulatory Acctg Case Mgr

Sponsored By: Michael A. Baird

Title: Mng Dir Acctng Policy & Rsrch

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Question No. OPUC 7-2:

Please refer to SWEPCO's Response to OPUC RFI No. 4-1, sponsored by Mr. Gregory S. Wilson. Please provide the underlying calculation of the ten "Test" results used to compute the average annual storm expense and the amount needed for the storm reserve. Please include in your response any steps used within the simulation results provided, which demonstrate the steps made to develop these test results.

Response No. OPUC 7-2:

The calculations of the ten test results are the same as what is included in the simulation spreadsheet. They are based on a random number generator using the formulas in cells B5005 through Y5005. The only difference is that the model generates a different random number each time the model is run.

Prepared By: Gregory S. Wilson

Title: Vice President & Principal

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Question No. OPUC 7-3:

Please refer to SWEPCO's Response to OPUC RFI No. 4-1, sponsored by Mr. Gregory S. Wilson. Please provide the underlying formula used to produce the iteration line-item results reported in column BA in the Simulation Tab.

Response No. OPUC 7-3:

Column BA is not used in the model and is left over from a previous version of the model used for a previous case. Column BA, which was ranking the 5000 results from that previous use of the spreadsheet, does not impact the results of Mr. Wilson's simulations in this case and should be ignored.

Prepared By: Gregory S. Wilson

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Question No. OPUC 7-4:

Please refer to SWEPCO's Response to OPUC RFI No. 4-1, sponsored by Mr. Gregory S. Wilson. Please provide a detailed explanation of the development as well as the actual formula used to compute the input variables shown on the Tab "Input_Varilable."

Response No. OPUC 7-4:

These numbers are at the bottom of WP-GSW. The Frequency Mean is the number of claims divided by the number of years. The average of LN (Log Normal) is the average of the natural log of each claim. The standard deviation is the standard deviation of the natural logs of the claims.

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Question No. OPUC 7-5:

Please refer to SWEPCO's Response to OPUC RFI No. 4-1, sponsored by Mr. Gregory S. Wilson and Exhibit GSW-3. Please provide an explanation as to why the Monte Carlo simulation includes storm events that are significantly greater than any actual storm reported on Exhibit GSW-3 from 2001 to 2020. Please include in your response the methodology used to estimate these larger catastrophic events.

Response No. OPUC 7-5:

The data from the loss history is used to build a statistical model that give an indication of the potential losses from an event. We used 2000 through 2020 for our model, and it produced seven storms that are larger than the largest storm in the data. That is saying that over the next 5,000 years, if the exposure was the same as it is today, there would be seven storms larger than the largest in the data.

Prepared By: Gregory S. Wilson

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Question No. OPUC 7-6:

Please refer to SWEPCO's Response to OPUC RFI No. 4-1, sponsored by Mr. Gregory S. Wilson. Please provide a detailed explanation for using an average storm reserve balance that covers approximately 96% of all trial iterations. Please provide the underlying calculation of the .95999199839968 included in the formula in Excel cell C5011 of the simulation results.

Response No. OPUC 7-6:

As noted in Mr. Wilson's testimony, he is projecting the amount of damages from a once in 25 year storm. Over 100 years, that would occur 4 times. Thus, 96 times out of 100 would be lower than the once in 25 year storm, thus the 96th percentile is used.

The Percentile function in excel interpolates the result if the percentile entered is not a multiple of $1/(n-1)$. Since in our model we use $n=5,000$, we need to use a percentile that is divisible by $1/4,999$. As we are looking for the 96th percentile, we want the 4,800th result. Thus, we need to use a percentile of $4,799/4,999=.95999199839968$ to get the correct answer.

Prepared By: Gregory S. Wilson

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Question No. OPUC 7-7:

Please refer to SWEPCO's Response to OPUC RFI No. 4-1, sponsored by Mr. Gregory S. Wilson. Please provide a computation using the Monte Carlo simulation that limits the highest catastrophic storm in any given trial to \$6,400,000. Please include in your response, any changes in assumptions that are included with this limitation.

Response No. OPUC 7-7:

Mr. Wilson did not rely on such a computation in developing the Monte Carlo simulation study that he used to determine his recommendations with respect to the storm reserve in this case, nor has he prepared such a computation. In addition, Mr. Wilson does not believe that such a computation is actuarially consistent with his recommendation.

Prepared By: Gregory S. Wilson

Title: Vice President & Principal

Sponsored By: Gregory S. Wilson

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Question No. OPUC 7-8:

Please refer to SWEPCO's Response to OPUC RFI No. 4-4, sponsored by Mr. Gregory S. Wilson and Exhibit GSW-3. Please admit or deny that the storm loss reported for 2000 is an estimated total expense and not based on the actual loss incurred by SWEPCO for the ice storm only. If deny, please provide an explanation with references to Mr. Wilson's testimony in Docket No. 37364.

Response No. OPUC 7-8:

We admit that the storm loss reported for 2000 is an estimated total expense and not based on the actual loss incurred by SWEPCO for the ice storm. The methodology and rationale are included in Mr. Wilson's testimony in Docket No. 37364.

Prepared By: Gregory S. Wilson

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Question No. OPUC 7-9:

Please refer to the Direct Testimony of Mr. Gregory S. Wilson, page 4. Please admit or deny that Mr. Wilson's analysis of self-insurance using a storm-related reserve included the option of requesting a financing order for securitization of plant restoration. If deny, please provide an explanation. If admit, please provide the effect on Mr. Wilson's proposed storm-related reserve balance of considering a securitization option for storm restoration.

Response No. OPUC 7-9:

We admit that Mr. Wilson's analysis of self-insurance using a storm-related reserve includes the option of requesting a financing order for securitization of plant restoration. The effect of this is that Mr. Wilson will not include any storm costs in his estimate that have been funded using any method other than the insurance reserve.

Prepared By: Gregory S. Wilson

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Question No. OPUC 7-10:

Please refer to the Direct Testimony of Mr. Gregory S. Wilson, Exhibit GSW-3. Please admit or deny that the actual storm losses greater than \$500,000 exclude the recovery of storm losses for Hurricane Ike and Hurricane Gustav. If deny, please provide an explanation as to why these storm costs would be included in Mr. Wilson's analysis, when such costs were already recovered pursuant to the Order in Docket No. 37364.

Response No. OPUC 7-10:

Mr. Wilson's analysis is using the historical losses to build a model to project future losses. It is not to recover past losses.

Prepared By: Gregory S. Wilson

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Question No. OPUC 7-11:

Please refer to the Direct Testimony of Mr. Gregory S. Wilson, Exhibit GSW-3. Please provide the actual total storm expense for each of the years included on this exhibit.

Response No. OPUC 7-11:

This information is included on WP GSW.

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Question No. OPUC 7-12:

Please refer to the Direct Testimony of Mr. Scott Mertz, page 20. Please provide the calculation for determining SWEPCO's total company Off System Sales ("OSS") margins and resulting amount allocated to the Texas jurisdiction. Please define the allocation factor used to allocate OSS margins to the Texas jurisdiction.

Response No. OPUC 7-12:

No Off System Sales margins are included in SWEPCO's revenue requirement.

As described in Page 34 of the direct testimony of Mr. Michael Baird, "Fuel revenues in Texas and SWEPCO's other retail jurisdictions are subject to separate recovery mechanisms that have no impact on the proper level of base rates that should be established in this proceeding. SWEPCO credits off-system sales revenues, which include SWEPCO's share of retained off-system sales margins to recoverable fuel expenses in all retail jurisdictions. In either case, SWEPCO does not reflect these revenues in the determination of the proper level of base rates." Additionally, as noted on WP A-3.26 (Revenues).xlsx, "The fuel revenue adjustment and off system sales revenue adjustment removes fuel related revenues from cost of service and synchronizes reconcilable fuel expenses and fuel revenues at \$0. The adjustment to off system sales revenues also removes SWEPCO's share of retained margins."

Prepared By: Tiffany A. Powell Day

Title: Regulatory Acctg Case Mgr

Sponsored By: Scott E. Mertz

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Question No. OPUC 7-13:

Please refer to the Direct Testimony of Mr. Scott Mertz, page 20:

- a. Please provide the rationale for the allocation of OSS of "90% to customers, with the Company retaining 10%."
- b. Please provide a detailed explanation of the rationale for the Company's 10% retention.
- c. Please provide the impact of the proposed Dolet Hills retirement on the five-year projection of the Company's OSS and resulting margins.

Response No. OPUC 7-13:

a.-b. 16 TAC 25.236(a)(9) expressly authorizes SWEPCO to retain 10% of off-system sales margins so long as SWEPCO meets the three criteria set forth in the rule, with the other 90% allocated to customers. SWEPCO meets all three criteria: (i) SWEPCO is an active participant in the Southwest Power Pool; which (ii) offers a generally-applicable tariff for firm and non-firm transmission service; and (iii) none of SWEPCO's off-system sales were to the detriment of - SWEPCO's retail customers. As stated in the Company's response to OPUC 7-12, no Off System Sales margins are included in SWEPCO's revenue requirement.

- c. The Company has not conducted the requested analysis.

Prepared By: Scott E. Mertz

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Question No. OPUC 7-14:

Please refer to the Direct Testimony of Mr. Scott Mertz, page 20. Please describe how projected OSS and resulting margins have been included in the calculation of the requested increase in the Texas retail revenue requirement of \$90,199,736. Please show how the OSS margins benefits the revenue requirement by rate class, including the allocation factors used for each rate class.

Response No. OPUC 7-14:

Please refer to the response to OPUC 7-12.

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